



The following information is to be used in conjunction with the Program Year 2007 HOME Application Policy and Application Forms.

2007-2008 HOME/Development Fund Guidelines

The Indiana Housing and Community Development Fund was established in 1989 to provide financing options for the development of safe, decent, and affordable housing in Indiana communities. On October 25, 2007, the IHCD Board of Directors approved the Application Guidelines contained herein for the use of Affordable Housing and Community Development Fund ("Development Fund") dollars in conjunction with other forms of financing to support new HOME affordable housing projects:

To streamline the application process, organizations applying for HOME funds during Rounds 2 and 3 of the 2007-08 funding cycle may now include a request for Development Fund financing within the HOME application. The Round 2 deadline of the 2007 HOME grant cycle has been extended from October 31 to December 31, 2007, to provide additional time to revise project applications.

Applicants who receive a Development Fund loan should be aware that additional regulations and requirements accompany this program. Development Fund regulations may be found in Indiana Code sections 5-20-4-1 to 5-20-4-16. Applicants should carefully review these regulations when requesting a Development Fund loan. IHCD strongly encourages applicants to consult with legal and accounting advisors due to the complexity of these programs.

In addition to the existing HOME threshold criteria, please note that in the event that an application is competitive for HOME funds but either (1) the application fails the Development Fund threshold review; or (2) Development Funds are not available to loan, IHCD will allow the applicant to submit additional information to identify other means of filling the project's financing gap. Upon timely receipt of requested information, these applications will continue to be considered for an allocation of HOME funds.

Activity Location

If applying for HOME funds in conjunction with a Development Fund loan, the proposed activity must be located within the State of Indiana and outside any other identified participating jurisdictions (see Eligible Applicants section). Applicants proposing a project to be located in rural areas of the State are strongly encouraged to apply for Development Fund financing.

Affordability Requirements

There is a minimum 15-year affordability period for rental housing, permanent supportive housing, and transitional housing that will be enforced by a recorded restrictive covenant on the property. Developers may propose extended affordability periods.

Applicants will be required to ensure the income eligibility of the beneficiary for homebuyer activities at the time the home is purchased or the assistance is provided.

Applicants with Current Development Fund Loans

Applicants with current Development Fund (or Trust Fund) financing are eligible to apply for additional financing. No individual project sponsor or its affiliates may hold more than 20% of the Development Fund's portfolio at any one time. While IHCDCA imposes no other limitation on the total amount of Development Fund debt that a single developer may incur across projects, no developer may hold more than \$1,000,000 in debt on projects *currently under construction at any one time*. All outstanding loans must be current and in good standing for a developer to qualify for additional awards.

Applications for funding will be accepted from applicants with developments that have previously received funding, including HOME or Rental Housing Tax Credits (RHTCs), but have not started construction. However, these applications will be subject to new underwriting criteria and, therefore, may risk losing or reducing the previous award(s). Developments that previously received RHTCs and are already in service must have received Form 8609 prior to application.

Application Forms

The Development Fund Application Forms are attached to this notice. The forms include other documents relevant to the process. These attached forms are addendums to the current HOME forms or will replace certain exhibits within the HOME forms to appropriately address the Development Fund loan request.

Beneficiaries

The Development Fund can be used to finance assisted units for occupancy by persons earning up to 80% of the area median income (AMI), as published annually by HUD. Indiana Code section 5-20-4-8 requires at least 50% of the Development Fund beneficiaries must have household incomes at or below 50% of AMI. Therefore, developments in which greater than fifty percent of the clients are at or below 50% of the area median income are strongly encouraged to apply for funding.

Development Fund Activity Provisions

The Development Fund will provide construction loans, short-term permanent financing, or refinancing of an existing permanent mortgage(s). To refinance an existing permanent mortgage, the property must be owned by the recipient and must be in good standing with the current lender. IHCDCA reserves the right to refinance construction loans involving IHCDCA funding.

Recipients of Development Fund loans cannot loan those funds to any other entity. Applicants are strongly encouraged to use the Development Fund loan as matching funds for financing from local housing trust funds.

The Development Fund is not intended for use as bridge financing.

Eligible Activities

Eligible activities include acquisition, new construction and/or rehabilitation of homes for sale, permanent rental units, transitional housing units, or permanent supportive housing. Applicants intending to include RHTCs to finance the development must apply for Development Fund dollars during the RHTC application round, in accordance with the 2007-2008 Qualified Allocation Plan (QAP), in March 2008.

Eligible Activity Costs

ACQUISITION

Limited to the purchase price and related costs associated with the acquisition of real property.

NEW CONSTRUCTION

- Hard costs associated with new construction activities.
- Utility connections including off-site connections from the property line to the adjacent street.
- Related infrastructure costs - improvements to the development site that are in keeping with improvements of surrounding, standard housing activity. Site improvements may include on-site roads and water and sewer lines necessary to the development.
- For multifamily rental housing, costs to construct an on-site management office, the apartment of a resident manager, or laundry or community facilities which are located within the same building as the housing and which are for the use of the tenants and their guests.
- Stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners
- Contingency funds used for unanticipated hard cost overruns or change orders.

REHABILITATION

- Hard costs associated with rehabilitation activities.
- Lead-based paint interim controls and abatement costs.
- Utility connections including off-site connections from the property line to the adjacent street.
- Related infrastructure costs - improvements to the development site that are in keeping with improvements of surrounding, standard housing activity. Site improvements may include on-site roads and water and sewer lines necessary to the development.
- For multifamily rental housing, costs to rehabilitate an on-site management office, the apartment of a resident manager, or laundry or community facilities which are located within the same building as the housing and which are for the use of the tenants and their guests.
- Stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners
- Contingency funds used for unanticipated hard cost overruns or change orders.

DEMOLITION

Costs associated with the demolition and clearance of existing structures.

COMMERCIAL DEVELOPMENT COSTS

All costs associated with the construction or rehabilitation of space within a development that will be used for non-residential purposes such as offices or other commercial uses. This does not include the common area used by tenants of rental property or the leasing office of the apartment manager. Development Fund awards cannot be used to underwrite any portion of the commercial costs. The expenses incurred and income to be generated from the commercial space must be reported in a separate “Annual Expense Information” sheet and 15-year pro forma (See Rental Development Package).

RELOCATION

This includes relocation payments and other relocation assistance for permanently and/or temporarily relocated individuals, families, businesses, nonprofit organizations, and farm operations where assistance is required and appropriate. Relocation payments include replacement housing payments, payments for moving expenses, and payments for reasonable out-of-pocket expenses for temporary relocation purposes.

LEAD HAZARD TESTING

Cost associated with lead hazard testing (HOME and Development Fund combined), not to exceed average of \$1,000 per unit.

REPLACEMENT RESERVES

Funds used to initially capitalize a reserve fund used for major capital repairs to a rental housing facility. These funds can be capitalized either through operating cash flow or through the development the budget Uses of Funds.

OPERATING RESERVES

Funds used to initially capitalize a reserve fund that covers operating expenses when there are rental income shortfalls over the life of a rental development. This line item must be included for rental developments and should be at least 4 months of operating expenses plus 4 months of debt service.

RENT-UP RESERVES

Funds used to initially capitalize a reserve fund that covers operating expenses during a project’s initial lease up period.

ENVIRONMENTAL REVIEW

This line item includes expenses associated with the environmental review release of funds process. It is not required for a Development Fund-only assisted development but may be for other sources of funds. This does not refer to a Phase I Assessment. Those expenses should be included in the program delivery line item. Eligible costs for this line item are generally between \$2,000 and \$5,000 and include professional services, publication costs, photocopying, and postage.

For further information regarding this activity, please read the [Environmental and Historic Review Handbook](#) or contact your Community Development Representative.

TRANSITIONAL HOUSING OPERATING COSTS

This line item does not apply to Development Fund.

PRE-DEVELOPMENT AND SEED MONEY

Repayment of existing pre-development and Seed Money loans is acceptable.

Ineligible Activities

Nursing homes, convalescent homes, hospitals, residential treatment facilities, correctional facilities, and student dormitories; rehabilitation of mobile homes; acquisition, rehabilitation, new construction, or refinance of units within the boundaries of the 100-year floodplain; additional funding for an existing HOME property.

Ineligible Activity Costs

The following costs are generally ineligible for reimbursement from a Development Fund loan award:

- Cost associated with any application preparation
- Purchase or installation of luxury items
- Purchase or installation of equipment, furnishings, tools, or other personal property that is not an integral structural feature, such as window air conditioner units or washers and dryers. Allowable exceptions to this prohibition, however, include stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners
- Costs of supportive services
- General operating expenses or operating subsidies
- Tenant based rental assistance
- Mortgage default/delinquency correction or avoidance
- Annual contributions for operation of public housing
- Staff costs

Loan Conditions

All applications for Development Fund loans must provide a plausible repayment plan.

If applicable, recipients of permanent financing will be required to resubmit an updated Rental Development Package, as found in Chapter 12 of the 2006 HOME Award Manual, Exhibit “U”, upon construction completion. IHCD will compare this information with the original application. If there are any changes that would have originally resulted in a lower Development Fund loan amount, the recipient may be asked to pay back a portion of the original award amount.

Award recipients will be required to provide proof of adequate builder’s risk insurance, property insurance, and/or contractor liability insurance during construction. Following construction, proof of adequate property insurance is required for all assisted properties throughout the affordability period. Additionally, recipients of a homebuyer award must require beneficiaries to maintain adequate property insurance coverage throughout the affordability period.

Recipients of Development Fund financing for transitional housing, permanent supportive housing, and rental housing will be required to report certain information about beneficiaries of assisted units to IHCD annually throughout the affordability period. See the [Implementation Manual](#) for further guidance.

Award recipients receiving Development Fund financing for homebuyer activities may loan funds directly to homebuyers. The term between recipient and homebuyer may not exceed the

terms of the loan between IHCD and the recipient. The interest rate to the homebuyer may not exceed the IHCD rate plus 2%. The loan must be fully amortized (recipient may not have a balloon payment on the homebuyer's loan).

The State of Indiana, [Department of Financial Institutions](#), may require that an entity providing secondary financing, and that also meets certain criteria listed below, be licensed by the State of Indiana.

- The loans must be issued in the name of the entity.
- The entity must be regularly engaged in making loans by issuing either more than five (5) loans secured by a second mortgage (lien) or more than twenty-five (25) loans if not secured by a mortgage within a twelve (12) month period.
- The debt repayment or contractual obligation must be for a term of more than four (4) installments or impose a finance charge at repayment.
- An application for a loan license as well as a brochure on lending is available at the [Department of Financial Institutions](#) website under consumer credit.

Loan Terms

Development Fund construction loans may be financed for up to two years. Loan terms for permanent financing may not exceed 15 years, with a maximum 30-year amortization schedule.

Subject to these limitations, applicants may propose the rate and terms of the loan. The final rate and terms will be determined by IHCD.

Match Requirements

Applicants are allowed to use the match sources identified in the HOME application as acceptable matching funds for the Development Fund application. Acceptable HOME match sources include in-kind donations, donated land, building materials, cash grants, loans from other federal sources from local entities, such as CDBG, HOPWA or HOME funds, or a combination of both in-kind and cash. Other sources of match may also qualify. Contact your IHCD Community Development Representative if you have questions about a specific source.

Other Regulatory Requirements

All regulatory requirements of [I.C. 5-20-4](#) must be met.

Development Fund-assisted units must, at a minimum, meet the stricter of the local building codes or the Indiana State Building Code.

The housing must meet the accessibility requirements of [24 CFR Part 8](#) which implement Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794), and covered multifamily dwellings, as defined at [24 CFR 100.201](#). It must also meet the design and construction requirements at [24 CFR 100.205](#), which implement the Federal Fair Housing Act Amendments of 1988 (42 U.S.C. 3601-3619). See [IHCD's Implementation Manual](#) for guidance on the regulatory requirements of Section 504 Accessibility Standards.

Recipients are subject to lead based paint regulations. See IHCD's [Implementation Manual](#) for guidance on the regulatory requirements of lead-based paint of [24 CFR Part 35](#).

Newly constructed housing must meet the Indiana Energy Conservation Code published by the International Code Council that was in place at the time of application.

Pro formas

Applications for transitional, permanent supportive, and permanent rental housing must complete the appropriate pro forma within the Application forms. If the housing activity is scattered site, the applicant must complete the Scattered Site Rental Pro Forma. If the application for scattered site rental has more than one owner, a Scattered Site Rental Pro Forma must be completed for each owner.

Rental and permanent supportive housing award recipients will be required to submit a back-end underwriting form with their close-out documents. IHCD will compare this information with the original application. If there are any changes that would have originally resulted in a lower Development Fund loan amount, the applicant may be required to repay a portion of the award.

For transitional housing, if the applicant intends to charge rent based on: (a) the lesser of a percentage of the tenant's income, or (b) the applicable rent level, then the pro forma must reflect the rent amount the tenant will be required to pay, either (a) or (b), as determined by the applicant.

Rent Restrictions

Projects may include units funded with both HOME and Development Fund dollars, HOME dollars only, or Development Fund dollars only. If a unit has received either only HOME dollars or both HOME *and* Development Fund dollars, it will be subject to the rent restrictions contained in the HOME regulations. If a unit has received Development Fund dollars only, the sponsor may propose rents that are affordable to families earning up to 80% AMI. IHCD will make the final determination regarding appropriate rent levels for such projects.

Security or Collateral

A Development Fund loan must be fully secured. The Development Fund loan may be subordinated to other financing. The security pledge should reflect the degree of risk inherent in the housing activity and must be proportionate to the level of funding requested. The appropriateness of the security offered will be an element of the funding decision.

Subsidy Limitations

Table 1: Rental Units

| AMI Level | Subsidy Limit | | | |
|-----------|--------------------------|-----------|------------|-------------------------|
| | 0 BR or Efficiency Units | 1BR Units | 2 BR Units | 3 or more Bedroom Units |
| 30% | \$40,000 | \$47,250 | \$50,000 | \$57,750 |
| 40% | \$38,000 | \$45,000 | \$47,500 | \$55,000 |
| 50% | \$36,100 | \$42,750 | \$45,150 | \$52,250 |
| 60% | \$34,300 | \$40,600 | \$42,850 | \$49,650 |
| 80% | \$32,600 | \$38,600 | \$40,700 | \$47,200 |

Table 2: Homeownership Units (Combined Affordability and Development Subsidy)

| Size of Unit | 0 BR or Efficiency | 1-2 BR unit | 3 or more BR unit |
|------------------------|--------------------|-------------|-------------------|
| Maximum Subsidy | \$35,000 | \$40,000 | \$50,000 |

Underwriting Guidelines

The following items are underwriting guidelines for all rental and permanent supportive housing developments funded through IHCD. Applicants should be aware, however, that these are averages and the numbers submitted should reflect the nature and true cost of the development proposed. IHCD will consider any underwriting outside of these guidelines, if supporting documentation is provided. Documentation must be included to support the operating expenses and replacement reserves stated in the pro forma. Please provide a detailed explanation for any underwriting outside these guidelines.

Operating Expenses: IHCD will consider the reasonableness of operating expenses for each Development based on information submitted by the Applicant.

Management Fee: Five to seven percent of effective gross income

- 1-50 units - 7%
- 51-100 units - 6%
- 100+ units - 5%

Vacancy Rate: Six to eight percent

Rental Income Growth: One to three percent per year

Operating Reserves: Four to six months

Replacement Reserves: New Construction: \$250 - \$300; Rehabilitation: \$300 - \$350.

Operating Expense Growth: Two to four percent per year

Expected Minimum Spread: One percent between operating expense growth and rental income growth

Stabilized DCR: 1.15-1.35. For developments structured with no hard debt – minimum cash flow before deferred developer fee must be at least \$250 per unit annually.